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STRATEGIC MATERIALS TRANSITING YUGOSLAVIA TO THE BLOC

1. Not covered in this paper:

- a. Goods not on List I and List II.
- b. Goods of Yugoslav origin moving to the Bloc.
- c. Transactions arranged by Yugoslav individuals and firms inside or outside Yugoslavia where the goods themselves do not transit Yugoslavia.

2. No effort is made in this paper to analyze Bloc-Yugoslav economic relations as a general problem.
3. Embassy/Belgrade has recently summarized the Yugoslav control picture in D-733, 29 April 1954, Secret, which gives the following information:

There are sufficient controls, if properly exercised, to regulate satisfactorily and effectively Yugoslav imports and exports of strategic commodities. If information the Embassy has received of attempted or actual diversions involving Yugoslav firms can be considered indicative, in fact, the problem in Yugoslavia is largely one of re-export or switch-trading by a few Yugoslav firms, since cases reported in the past year have concerned almost exclusively commodities originating in other countries and which did not, or were not intended to, enter Yugoslavia.

The most numerous offenders in these cases were small and newly formed firms such as PROGRESS, LABOR, and INTERTRADE. Assuming the good faith of the Yugoslav government, these, and possibly other trading firms, have been able to accomplish illicit transactions for the following reasons:

- a. In the past four years the number of Yugoslav firms dealing in foreign trade has nearly doubled; and there are today more than five hundred of them. Decentralization, furthermore, has reduced measurably the administrative controls of the government over these firms, with the result that they can act with a degree of freedom often commensurate with that of their western equivalents. The government professes great difficulty in attempting to obtain detailed information from these firms on their negotiations or transactions abroad as the firms consider such information business secrets.
- b. End-use certificates have been issued with too little attention to the details of the transaction (i.e., commodity, amounts, and foreign firms involved, route of shipments, etc.) While

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the Chamber for Foreign Trade professes to keep a so-called "Black List" of illegal foreign traders, it is either woefully incomplete or has not been sufficiently consulted in the past to prove effective. The Embassy has urged strongly the absolute necessity of at least minimum investigation of a transaction previous to the issuance of an end-use certificate, particularly where one of the suspect firms is involved.

- c. No attempt has been made in the past to follow up on a foreign end-use certificate in the way of a delivery verification.
- d. With the exception of a 500,000 dinar fine against a Slovenian firm (Ruse) in 1952, no known penalties have been levied against a Yugoslavian firm for diversions. The Embassy feels that the major reason for the increased number of diversion cases reported during the past few months has rested with the indifference of the Yugoslav government.
4. The known instances of diversion and attempted diversion of goods originating in Yugoslavia have been via points outside Yugoslavia, such as Vienna, Antwerp, and Rotterdam. This fact might tend to indicate that Yugoslavia is not shipping strategic materials directly to the Bloc, if shipping any at all.
5. A survey of E/ST material, limited to the period since June, 1953, presents a small number of cases. [REDACTED]
6. [REDACTED] from November 1953 to January 1954 numerous Yugoslav vessels returning from UK ports carried voluminous cases of unspecified merchandise. [REDACTED]
7. [REDACTED] on 20 November 1953 the Yugoslav vessel SS DINARA docked for several hours in the port of Naples without loading or unloading any cargo. The vessel arrived from Liverpool and [REDACTED]

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carried a cargo of locomotives, railroad materials, and electrical equipment. The shipment was allegedly to be discharged at Rijeka and transmitted to Hungary for consignment. [REDACTED]

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8. On 1 November 1953 [REDACTED] observed crates being unloaded from the Yugoslav freighter HVRATSKA. Some of the crates were from the American Cyanamide Co. and from the Allis Chalmers Co. and were marked only GOLDSTEIN (or GOLDBERG), Haifa. [REDACTED] port told source that the goods being unloaded for Haifa were actually bound for Eastern Europe and contained oil drills and pumps and chemicals for making alloys. Passengers from the HVRATSKA talked about the sale of American supplies to Eastern Europe through Israeli intermediaries. One passenger claimed to have seen 'hundreds of bills of lading for goods to Israel aboard the HVRATSKA but none of it was going there'.

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The reference to oil drills transiting Yugoslavia to the Bloc in the preceding report is corroborated to a slight extent by a report [REDACTED]

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that seven complete US-made oil drilling rigs had been smuggled into Southern USSR from either Yugoslavia, Greece, or Turkey. He said that these rigs were complete with drilling masts, rig portions, pipe, bits, and all accessories, but he was unable to identify them as to size, type, or manufacturer. When questioned as to what made him so positive he stated that he had talked with an individual who had actually seen the rigs in the Soviet Union. (CONFIDENTIAL)

9. At some time prior to February 1954, an unnamed UK firm applied for an export license to cover a shipment of 3500 MT of electrolytic copper in various forms (electrodes, bars, etc.) to the Yugoslav export-import firm PROGRESS. The application for the British export license was accompanied by a declaration by PROGRESS that the copper would not be re-exported and by an end-use certificate from the Yugoslav Chamber of Commerce in Belgrade to the same effect.

British authorities were suspicious of the shipment for the following reasons:

1. Purchase was direct from the supplier rather than through the Exchange.
2. Payment was to be made in dollars.
3. Shipment was to be made via Antwerp.

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4. A Liechtenstein intermediary, Etablissement Popper, was involved.

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1. the copper was in fact for re-export.
 2. the re-export was to be made to a Swiss firm (unnamed).
 3. such re-export would be covered by satisfactory import certification by the Swiss firm.
 4. while the Yugoslav government would not object if the export license were denied the UK supplier, under the circumstances they hoped that this would not be the case as licit re-export trade was of considerable interest to Yugoslavia.

As a result of this investigation the application for export license by the UK firm was denied.

Belgrade D-553, 16 February 1954; Secret; SANA; BFC; TR; FOA.

Note that in this case it was highly unlikely that the copper would have moved physically into Yugoslavia. More probably the shipment would have moved as far as Antwerp where the goods would have been diverted without entering Yugoslavia.

10. The same Yugoslavian firm, PROGRESS, was also involved in a suspected attempt to divert Austrian aluminum to the Bloc during April 1954. PROGRESS supplied Yugoslavian import documentation to the Austrian aluminum producer VEREINIGTE ALUMINIUMWERKE. Yugoslavian officials cancelled the transaction when, under prodding from American officials in Belgrade, they discovered that the aluminum was actually intended for re-export.

Belgrade tel. 1168, 28 April 1954, Secret

11. As is shown above, the reported cases of strategic goods moving through Yugoslavia to the Bloc are few and insubstantial. There have been several reports which mention no movement of strategic goods through Yugoslavia but which do give evidence of a willingness on the part of Yugoslavian businessmen and officials to facilitate such trade.

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